Why Silver Wheaton Corp. Is a Great Investment

Description

Precious metal miners continue to have a fairly decent 2016. After the prolonged weak gold market finally came to an end last year, many precious metal miners have recouped some of the losses of previous years; some precious metals stocks are up over 100% year-to-date.

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is not up over 100%, nor is it a miner specifically, but the company is still having a fairly good year–up over 45% year-to-date.

Silver Wheaton: the streamer

Silver Wheaton is a streaming company, not a miner. This means is that Silver Wheaton provides upfront capital to traditional miners, who use that capital to set up the mine and begin operations. In exchange for that upfront injection, Silver Wheaton is entitled to fair amount of the metals extracted from the mine at a significant discount.

That discount allows Silver Wheaton to purchase gold for roughly US$450 per ounce and silver at near US$4 per ounce. By way of comparison, an ounce of gold currently sells for a little over US$1,200 per ounce, and silver sells for over US$16 per ounce.

Once Silver Wheaton acquires that metal, it can then sell it on the open market and make a huge return.

The streaming model provides Silver Wheaton with a safe yet lucrative model when compared to traditional miners. Because Silver Wheaton doesn't own, nor operate any of the mines, the company is not exposed to many of the risks that traditional miners have, yet it still has access to metals acquired from the mine.

Recent results are mixed, but not overly negative

Silver Wheaton reported quarterly results recently that fell short of some expectations. The company posted earnings of US$0.19 per share, falling short of the US$0.21 that had been expected. Silver Wheaton recorded revenues of US$233 million for the quarter, which also fell short of the US$261.88

million that analysts had been expected.

The market took the results with a mixed view, and the stock price dropped, but the real story from the quarterly report has more to do with the much-improved financials of the company. While the forecasts for both earnings and revenue did fall short, both figures are significantly improved over the same quarter last year.

In the case of revenue, Silver Wheaton bettered the same quarter last year by 52%. Equally impressive is the earnings of US$0.19 per share, which, while missing the US$0.21 forecasted, still significantly outperforms the $96 million loss reported last year.

If anything, the pullback of the stock price could provide an opportunity for long-term investors to increase their position in the stock. And there's good reason for that too.

Silver Wheaton sold more gold in the quarter than silver, and it sold more of the precious metal year over year. The increase and shift to gold is something that has been underway for some time at the company; that increase has been noted now for several quarters.

Should gold prices remain strong, as they are likely to, then further gains could be expected in future quarters. To top it off, Silver Wheaton has raised guidance for gold production again, setting the stage for even higher returns. The 305,000 ounces that the company forecasted for the year just last quarter has been revised to 335,000 ounces.

In my opinion, Silver Wheaton remains a great option for those investors looking for a long-term precious metals stock.

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1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

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